

ANNUAL REPORT  
OF  
THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1942

Ending January 2, 1943

# ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY

## FOR THE YEAR 1942

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February 12, 1943

### TO THE SHAREHOLDERS:

This report is for the year 1942, beginning December 28, 1941 and ending January 2, 1943 (53 weeks).

Sales for the year (53 weeks) were \$388,847,338 as compared with sales for 1941 (52 weeks) of \$302,765,745, an increase of 28%.

Net income (after provision for Federal taxes on income) for the year 1942 was \$4,649,484, or \$2.53 per share after preferred dividends, as compared with earnings for the year 1941 of \$4,970,102, or \$2.71 per share after preferred dividends.

The income before provision for Federal taxes exceeded the income of the previous year before Federal taxes and reserve for contingencies by \$2,818,382, in spite of a material increase in wages and other expenses. Wages increased approximately \$6,500,000, or 16%. The provision for Federal taxes on income for the year 1942 was \$6,777,000, as compared with \$1,638,000 for the previous year.

During the year 1942 your Company disposed of its controlling interest in the Piggly Wiggly Corporation, which explains why the balance sheet of that corporation is not consolidated in this statement as in previous years.

Merchandise inventories were \$41,948,687 at the year-end as compared with \$30,200,939 at the end of the previous year. Approximately five million dollars of the present inventory is represented by increased commodity prices.

During the year the revolving loan was increased from \$8,000,000 to \$15,000,000. With the large increase in inventories of merchandise it was deemed advisable to be adequately protected as to supply and cost of money. This loan was made on terms which we believe are advantageous, and is available until October 15, 1946. This loan was reduced to \$14,000,000 by the payment of \$1,000,000 on December 28, 1942.

The war has created many unusual and difficult problems. Government regulations and restrictions have adversely affected profits, added work, and limited expansion and improvements. The Office of Price Administration has imposed regulations which create perplexing problems and increased work and cost, but in some instances recently has issued corrective measures which will provide some measure of relief.

Many kinds of merchandise have become difficult to obtain. Your Company has been unable to make any major expansion of stores, plants or facilities because of inability to secure equipment, and the remodeling of stores is practically at a standstill for the same reason. Competent manpower for all types of work is difficult to secure, and wage rates have risen steadily.

A severe fire loss was suffered in the total destruction of the Carbondale warehouse, including contents and equipment, on December 14, 1942. This loss, although covered by insurance, may handicap operation in that area to some extent until adequate arrangements can be made for warehousing. Stores in that territory remained open and are being serviced from temporary quarters and adjacent branches.

The Manufacturing Division, in the face of acute shortages and many other difficulties, maintained production levels comparable with previous years. The capacity of the Omaha Packing Plant, acquired in February 1942, added to that of our Columbus Packing Plant, has increased our ability to supply our stores with meats.



Your Company has made a number of valuable contributions to the war effort. Our manufacturing plants are furnishing biscuits, bread, meat products and other rations for the Armed Forces. Although the contracts with Government agencies with respect to these sales are subject to renegotiation, the Company has received no intimation that any renegotiation procedures are contemplated, and it is believed that the refunds, if any, would be insignificant. The Kroger Food Laboratories have undertaken, in cooperation with the Quartermaster Department, a broad experimental program to assist certain manufacturing operations producing food for the Armed Forces.

At the end of 1942 there were 3,510 Kroger employees in the Armed Forces of the Country. This represents 25% of our male personnel.

An indictment was returned January 20, 1943 against your Company and its officers by a Federal Grand Jury in Kansas City, Kansas, in which it is alleged the Company violated the Sherman Anti-Trust Act. More specifically, it is charged it combined and conspired, with its subsidiary companies, to restrain trade and create a monopoly. The officers of your Company have never intended or conspired to violate the Sherman Anti-Trust Act, and they feel confident the charges will be entirely disproved. Similar indictments were returned against two other grocery chain store companies.

The Company was indicted April 14, 1942 for a violation of the anti-trust laws in an alleged conspiracy in regard to milk prices. Decision was rendered in our favor in the lower court, was appealed by the Government to the United States Supreme Court, and this appeal was dismissed February 1, 1943 by the Supreme Court at the request of the Attorney General. So, in this case your Company has won complete and final victory.

The procurement of an adequate supply of merchandise and competent personnel to sell that merchandise will be our major problems for 1943. We start the year with a good inventory. We are having the unique experience of sending our buyers out into the field to locate and purchase merchandise, in contrast to the usual procedure of having vendors of merchandise come to us. The supply of food for the civilian population will be governed almost wholly by Government allotment. We start the year hopefully and are prepared to adjust our operations to fit conditions as they may arise.

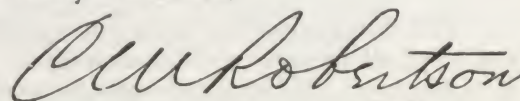
During the year the number of regular employes decreased from 22,784 to 18,567. This decline was due in part to a change required in our definition of a regular employe, and in part by consolidation of stores and elimination of services. The employment of women increased materially during the year, and 48% of our store clerks are now women.

Many employes have left the Company to enter war industries at rates of pay our industry could not meet. The problem of replacing these employes and those entering the Armed Services is, and will continue to be, acute. A series of intensive training programs enables us to quickly develop competent help for serving our customers. This has aided us in meeting the serious manpower problem.

We were all shocked and saddened by the death of our able and inspiring President, Albert H. Morrill, which occurred on September 13, 1942. We shall keenly feel his loss as a friend and leader. This loss will be shared by the entire community, because of his long and devoted service to the city in which he lived and with whose business and civic interests he was so closely and prominently identified.

The difficult situations facing the Company in 1943 are common to the entire retail food industry. How successfully they are met will depend on the ability and attitude of the people who must deal with those problems. The attitude of Kroger personnel toward the future is exemplified in the Company motto of recent creation—"If anybody can do it, we can." This may be interpreted by some as idly boastful. On the contrary it is their work-day "theme song" of determination and courage, confident that they will be able to master situations as they may arise. Your President believes they can.

Respectfully submitted,

  
President



# CONSOLIDATED BALANCE

## ASSETS

Cash on hand and demand deposits.....		\$19,495,954
Notes and accounts receivable, less allowance for losses:		
Customers .....	\$2,351,987	
Employees .....	12,984	
Vendors and others (including insurance claims of \$748,521) .....	1,578,706	3,943,677
Inventories of merchandise, at lower of cost or market.....		41,948,687
Store and general supplies.....		955,760
Prepaid insurance, rent, taxes, etc.....		490,148
TOTAL CURRENT ASSETS		66,834,226

Stocks, bonds, mortgage notes, etc., less allowance for losses (Note 1) ..	220,074
Common stock of company held for sale to officers and employees (11,689 shares) (Note 2).....	305,834
Post-war refund of excess profits taxes.....	85,700

### FIXED ASSETS:

Land and buildings, as appraised as at January 1, 1933, with subsequent additions at cost:		
Land .....	1,365,285	
Buildings .....	\$10,215,058	
Machinery and equipment, as appraised as at January 1, 1933, with subsequent additions at cost.....	23,311,468	
Automotive equipment, etc., at cost.....	3,914,697	
	37,441,223	
Less, allowance for depreciation and obsolescence .....	20,799,266	
	16,641,957	18,007,242
Deferred charges to future operations.....		734,748
		<u>\$86,187,824</u>

*Note 1: The Kroger Company's interest in Piggly Wiggly Corporation is included in the consolidated balance sheet. During the year a portion of the investment in Piggly Wiggly Corporation was sold, resulting in a controlling interest in that company.*

*Note 2: At January 2, 1943, certain officers and employees held options to purchase common stock of the company. Options may be exercised at any time to October 2, 1944.*

TO THE BOARD OF DIRECTORS,  
THE KROGER GROCERY & BAKING COMPANY,  
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiary companies (which were then ended) then ended. In connection therewith, we reviewed the systems of internal control and the accounting procedures of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was limited to all procedures which we considered necessary.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and surplus for the year ended January 2, 1943, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in Cincinnati, Ohio,  
February 9, 1943.

## LIABILITIES

Accounts payable, vendors, etc.....	\$ 9,919,640
Accrued expenses, taxes, etc.....	3,265,504
Provision for Federal taxes, current and prior years.....	7,894,131
Dividends payable .....	<u>8,587</u>
TOTAL CURRENT LIABILITIES	21,087,862

Notes payable, banks; due October 15, 1946 (issued under loan agreement providing for payment at option of Company at any time prior thereto) .....	14,000,000
Reserves:	
For contingencies .....	\$ 2,000,000
For risks not covered by insurance policies.....	<u>514,986</u>
	2,514,986

## CAPITAL

## Preferred capital stock:

First preferred, 6% par \$100, authorized and issued 507 shares, less 3 shares in treasury, 504 shares outstanding .....	\$ 50,400	
Second preferred, 7% par \$100, 460 shares authorized and outstanding.....	<u>46,000</u>	96,400
Common capital stock without par value, authorized 3,000,000 shares, issued and outstanding 1,848,278 shares. (Note 2).....		33,977,568
Earned surplus, as annexed.....	<u>14,511,008</u>	<u>48,584,976</u>
		<u>\$86,187,824</u>

cluded in "Stocks, bonds, mortgage notes, etc.," in the foregoing balance sheet.  
 was sold with the result that the Kroger Company no longer owns a con-  
 o purchase 23,000 shares of the common stock of the company at \$25 per

companies as at January 2, 1943, and the consolidated statements of income and surplus for the fiscal year (fifty-three  
 es of the companies and, without making a detailed audit of the transactions, examined or tested accounting records  
 ion was made in accordance with generally accepted auditing standards applicable in the circumstances and included  
 plus present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at  
 n generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY,  
 Certified Public Accountants



**CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS  
FOR THE FISCAL YEAR (FIFTY-THREE WEEKS) ENDED JANUARY 2, 1943**

Net sales .....			\$388,847,338
Cost of sales, including warehousing and transportation expenses, excluding depreciation .....			<u>322,769,522</u>
			66,077,816
Operating, general and administrative expenses, excluding depreciation.....			<u>52,154,816</u>
Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes.....			13,923,000
Depreciation .....			<u>2,534,592</u>
			11,388,408
Net income of subsidiary companies after depreciation of \$33,706 and provision for Federal taxes on income of \$250,300 (including \$177,000 excess profits taxes less \$17,700 post-war refunds).....			150,420
Dividends received from Piggly Wiggly Corporation and book profit on sale of a portion of investment in that company.....			<u>58,137</u>
			11,596,965
Interest paid, less interest received.....			<u>170,481</u>
Income before provision for Federal income taxes.....			11,426,484
Provision for Federal taxes on income (including \$4,680,000 Federal excess profits tax, less \$400,000 credit for debt retirement and \$68,000 post-war refund).....			<u>6,777,000</u>
NET INCOME .....			4,649,484
Earned surplus, December 28, 1941.....			<u>13,540,296</u>
			18,189,780
Cash dividends paid in the fiscal year ended January 2, 1943:			
First preferred \$6.00 per share.....	\$	3,024	
Second preferred \$7.00 per share.....		3,220	
Common \$2.00 per share.....		<u>3,672,528</u>	<u>3,678,772</u>
Earned surplus, January 2, 1943.....			<u>\$ 14,511,008</u>

**FINANCIAL AND OPERATING STATISTICS**  
**FOR THE FISCAL YEARS 1935 TO 1942, INCLUSIVE**

	1935	1936	1937	1938	1939	1940	1941	1942
<b>PROFIT AND DIVIDENDS</b>								
Final Net Profit to Earned Surplus Dollars per Common Share...	2.25	1.91	1.62	2.05	3.02	2.51	2.71	2.53
Total Dollars .....	4,110,926	3,487,832	2,950,340	3,741,569	5,514,597	4,607,126	4,970,102	4,649,484
Cash Dividends Paid Dollars per Common Share...	1.60	1.90	1.60	1.90	2.50	2.00	2.00	2.00
<b>STOCK</b>								
Number Shares Common Stock Outstanding with Public—End of Year .....	1,821,989	1,821,989	1,821,989	1,821,989	1,822,734	1,831,889	1,834,589	1,836,589
Number Shareholders — End of Year .....	22,537	24,535	26,226	25,983	25,202	25,681	26,173	26,479
<b>SALES</b>								
Total Sales—Dollars .....	229,907,884	242,273,498	248,444,230	231,295,622	243,356,605	258,115,025	302,765,745	388,847,338
Average Retail Sales—Dollars per Store per Week ..	1,018	1,060	1,122	1,091	1,177	1,278	1,594	2,148
<b>STORES</b>								
In Operation at End of Year....	4,250	4,212	4,108	3,992	3,958	3,727	3,477	3,174
Average Number Operated During Year .....	4,286	4,239	4,169	4,032	3,943	3,846	3,601	3,348
<b>EMPLOYEES</b>								
Number Full-Time Employees at End of Year.....	21,611	21,429	21,515	20,498	21,691	22,358	22,784	18,567*
<b>BALANCE SHEET STATISTICS</b>								
Current Ratio .....	4.85	4.22	4.63	4.49	4.27	3.76	3.92	3.17
Cash, U. S. Government and Municipal Securities Dollars .....	10,837,664	9,943,788	12,123,820	14,889,287	13,132,832	11,507,754	17,963,435	19,495,954
Ratio to Current Liabilities...	1.57	1.20	1.64	1.87	1.52	1.15	1.37	.92
Inventories—Dollars .....	20,129,097	22,692,864	19,985,345	18,851,393	21,566,958	23,667,892	30,200,939	41,948,687
Fixed Assets in Percent of Total Assets .....	28	27	27	25	30	31	26	21
Net Working Capital—Dollars.	26,550,609	26,734,286	26,878,892	27,801,102	28,227,897	27,615,402	38,168,582	45,746,364

*\*Because of change in definition of regular employee this year, a large number of employees have not had sufficient continuous service with the Company to be classified as full-time employees.*



# The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

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## OFFICERS

CHARLES M. ROBERTSON, *President and Treasurer*

JOSEPH BAPPERT, *Vice-President*

F. M. GRIEME, *Assistant Treasurer*

JOSEPH B. HALL, *Vice-President*

T. S. BURNS, *Assistant Secretary*

JOHN H. SADLER,  
*Secretary and Assistant Treasurer*

J. M. MARKLEY, *Assistant Secretary*

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## DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati  
*President, The Mabley and Carew Co.*

JOHN M. HANCOCK, New York  
*Partner, Lehman Brothers*

JOSEPH BAPPERT, Cincinnati  
*Vice-President and General Manager  
Retail Division, The Kroger Grocery & Baking  
Company*

CARL M. JACOBS, Cincinnati  
*Partner, Frost & Jacobs*

WALTER A. DRAPER, Cincinnati  
*President, The Cincinnati Street Railway Company*

A. T. KEARNEY, Chicago  
*Partner, McKinsey, Kearney & Co.*

CHARLES W. DUPUIS, Cincinnati  
*President, The Central Trust Company*

CHESTER F. KROGER, Cincinnati  
*Proprietor, Clovelly Stock Farm*

HARRY J. GILLIGAN, Cincinnati  
*Proprietor, John J. Gilligan & Son*

CHARLES M. ROBERTSON, Cincinnati  
*President and Treasurer,  
The Kroger Grocery & Baking Company*

JOSEPH B. HALL, Cincinnati  
*Vice-President and General Manager  
Manufacturing Division, The Kroger Grocery and  
Baking Company*

JOHN H. SADLER, Cincinnati  
*Secretary and Ass't Treasurer,  
The Kroger Grocery & Baking Company*

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## PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

## GENERAL COUNSEL

Frost & Jacobs

## TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati  
Bankers Trust Company, New York

## REGISTRARS

The Central Trust Company, Cincinnati  
The Commercial National Bank and Trust Company of New York, New York